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C O N F I D E N T I A L AMMAN 006649

SIPDIS

TREASURY FOR PIPATANAGUL

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SUBJECT: JORDAN BEGINS DISCUSSION OF 2003 OIL AND TRADE AGREEMENTS WITH IRAQ

Classified By: DCM Gregory L. Berry. Reasons 1.5 (b) and (d)

1. (c) Following internal discussion about the timing of a trip to Iraq by Jordanian ministers, the Jordanian trade and energy ministers plan to travel to Baghdad next week for initial discussions of the 2003 bilateral oil and trade protocols. As in previous years, the two main elements of the negotiation are: 1) setting a reference price and amount of oil that Iraq will supply Jordan, and 2) agreeing on the value of the goods that Jordan will supply to Iraq as "payment" for the non-grant portion of the oil.

2. (c) The trip follows participation by a 72 company Jordanian delegation in the Baghdad trade fair that was led by National Economy Minister Samer al-Tawil and Energy Minister Muhammad al-Batayneh earlier this month. According to Trade Minister Salah al-Bashir, Batayneh had some informal discussions with Iraqi counterparts during the fair that "went well." By going with a bigger technical delegation, al-Bashir and Batayneh hope to nail down the details.

3. (c) Farouq al-Hadidi, the new Secretary General of the Ministry of Industry and Trade (Bashir's deputy) will lead the technical discussions of the trade protocol. Hadidi, the former head of the Export Development Corporation (JEDCO), is new to the job and is thought by many in the local business community to be close to the traditional industrialists who export to Iraq under the protocol. Nonetheless, we expect this year's agreement to follow the same general lines as last year.

4. (c) The headline size of the trade protocol, however, will most likely be larger than last year's \$250 million. In part this will reflect the increase in the market price of oil. In addition, the value of last year's trade protocol was reduced (from \$450 million in 2001) to offset an imbalance in goods shipped over oil received that had built up in previous years. Last year's agreement, negotiated by Samer al-Tawil when he was Secretary General, also contained the innovation that goods would only be shipped from Jordan to Iraq up to the amount of oil that Jordan actually received. In addition, Jordanian and Iraqi Central Bank officials take advantage of the annual meetings to reconcile the \$2 billion plus debt owed by Iraq to Jordan.

5. (c) Comment: Trade Minister al-Bashir told the Ambassador that there had been considerable discussion within the GOJ as to when we be the right time to make the trip to Baghdad. The decision to proceed as in previous years represents a cold calculation by the Jordanians of their short-term economic interest in continuing to receive cut-rate oil for as long as the Iraqis provide it. Nonetheless, as is the case every year, we expect the Iraqis to seek to extract some propaganda benefit out of the visit.

GNEHM